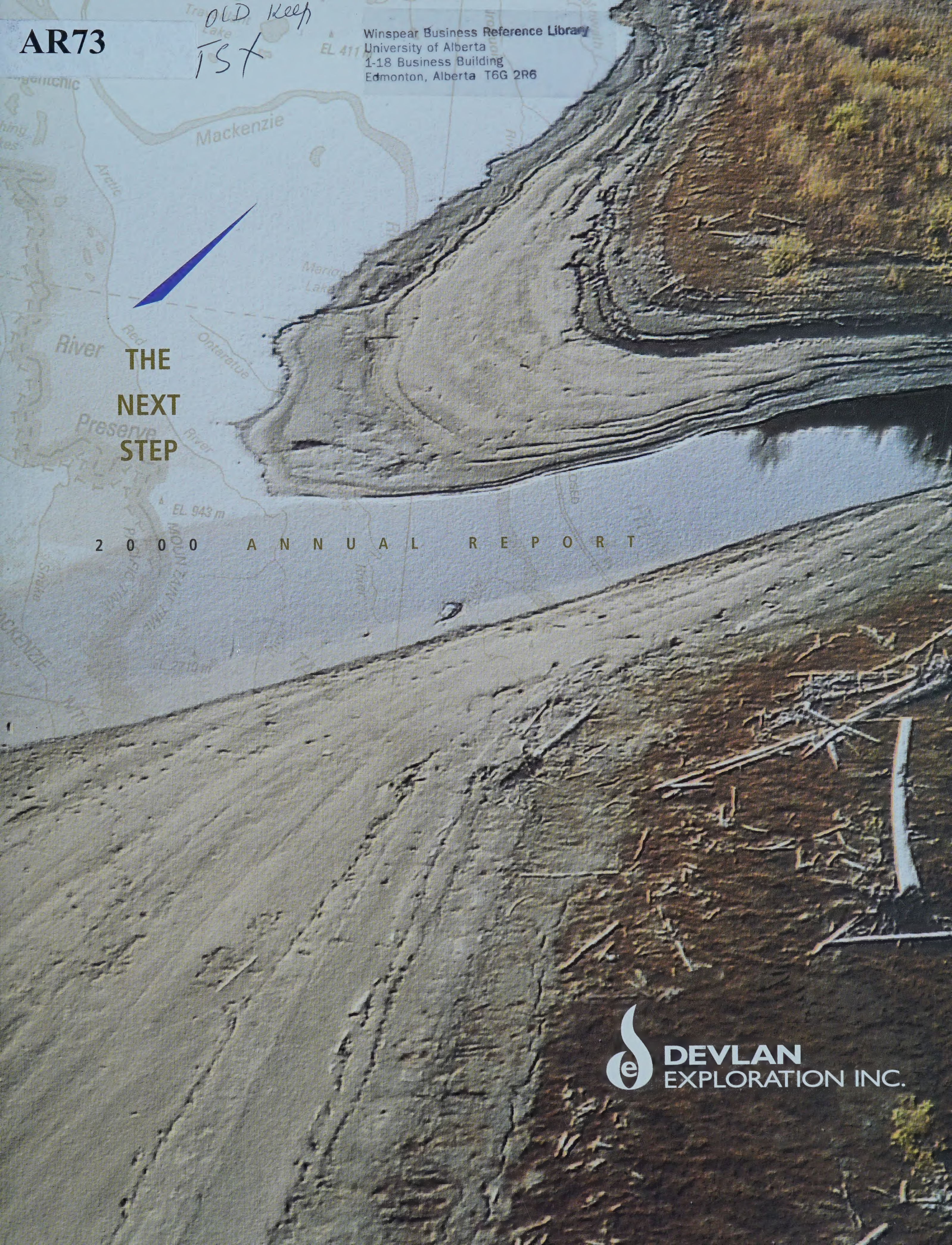


THE NEXT STEP

2000 ANNUAL REPORT

DEVLAN EXPLORATION INC.

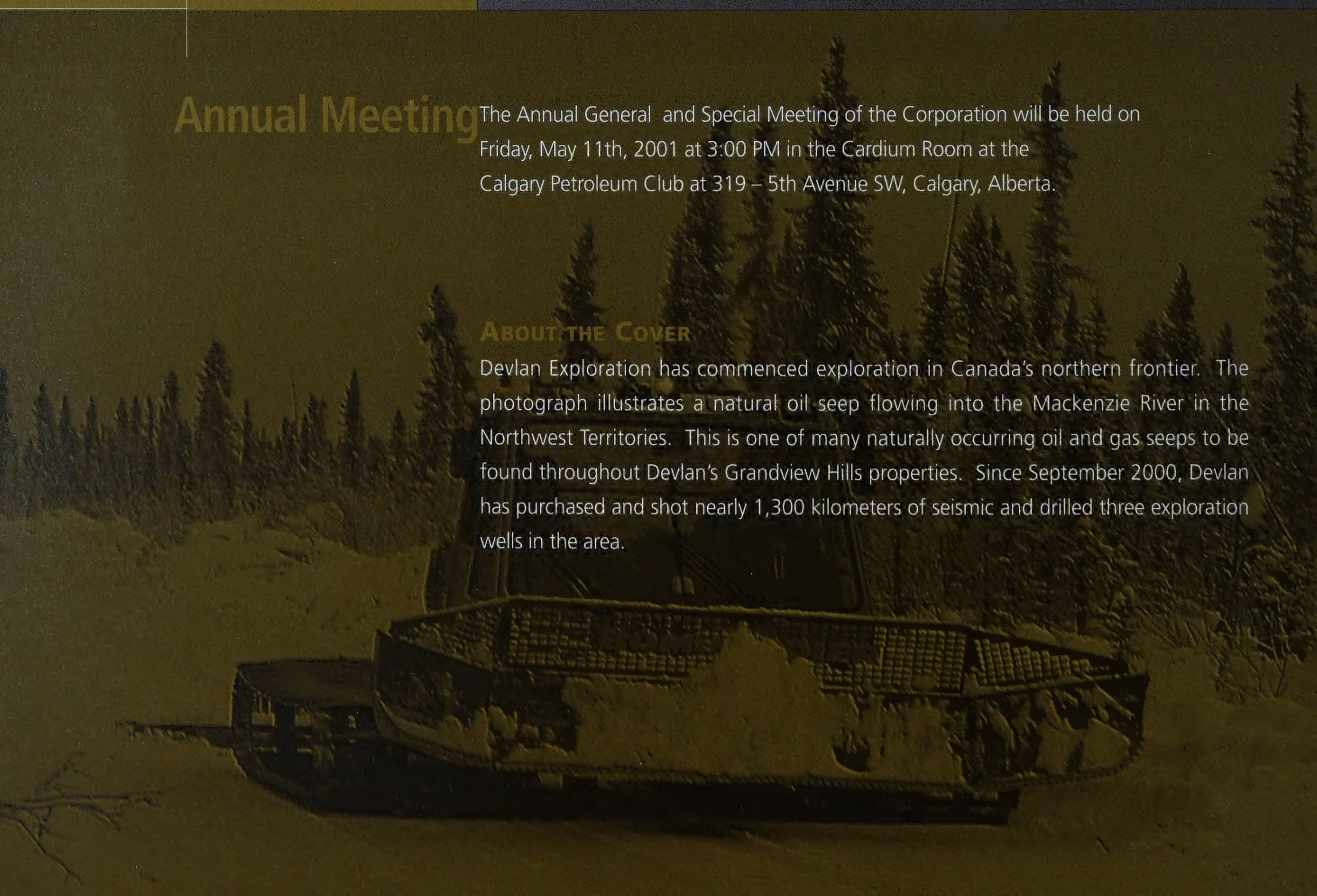
Devlan Exploration Inc.

Devlan Exploration Inc. is a junior Canadian natural gas producer based in Calgary, Alberta. The Company evolved from a program of property development and optimization to its present development/exploration focus. Devlan has a large property and natural gas reserve base and operates over 77% of its production. The Company operates exclusively in Western and Northern Canada and is heavily leveraged to natural gas with 94% of its reserves and 100% of its production made up of natural gas and natural gas liquids.

Table of Contents

Annual Meeting

The Annual General and Special Meeting of the Corporation will be held on Friday, May 11th, 2001 at 3:00 PM in the Cardium Room at the Calgary Petroleum Club at 319 – 5th Avenue SW, Calgary, Alberta.



About the Cover

Devlan Exploration has commenced exploration in Canada's northern frontier. The photograph illustrates a natural oil seep flowing into the Mackenzie River in the Northwest Territories. This is one of many naturally occurring oil and gas seeps to be found throughout Devlan's Grandview Hills properties. Since September 2000, Devlan has purchased and shot nearly 1,300 kilometers of seismic and drilled three exploration wells in the area.

Summary Information

Year ended December 31,	2000	1999	1998
OPERATIONS			
Net earnings (loss)	$ 1,760,547	$ (381,037)	$ (139,696)
Per share ($) - Basic	0.18	(0.06)	(0.03)
- Fully diluted	0.12	(0.06)	(0.03)
Cash flow from operations	6,414,548	1,478,400	259,413
Per share ($) - Basic	0.65	0.25	0.06
- Fully diluted	0.42	0.13	0.04
Daily average sales (Mcf)	6,428	5,370	1,700
Exit sales (Mcfd)	8,095	5,800	3,482
Daily average production (Mcf)	6,885	5,555	1,765
Exit production (Mcfd)	10,000	6,404	3,700
Gross Company Reserves (Mmcfe)			
Proven	15,074	12,694	9,435
Probable	1,190	836	1,704
Total	16,264	13,530	11,139
Gross Company Reserves (10%) (000's)			
Proven	$ 28,642	$ 12,640	$ 9,782
Probable	1,085	1,360	1,318
Total	$ 29,727	$ 14,000	$ 11,100
Land Holdings (net acres)	497,503	93,054	97,580
Average Working Interest	53%	94%	92%
Netbacks ($/Mcf)			
Field	$ 3.38	$ 1.45	$ 1.14
Cashflow	2.73	0.76	0.42
Corporate	0.87	(0.19)	(0.23)
SHARE CAPITAL*			
Common shares outstanding	11,776,765	9,865,527	5,488,905
Weighted average common shares outstanding	9,907,789	6,000,222	4,432,990
Fully diluted shares outstanding	15,195,129	11,146,471	5,863,905
Price range ($ per share) - High	2.40	1.45	3.68
- Low	0.62	0.44	0.50
- Close	2.20	1.00	1.19
Volumes traded	1,667,034	528,211	1,488,139
RATIOS			
Debt to equity	0.8	1.2	2.4
Debt to cash flow	1.5	5.2	28.7
Interest coverage (based on cash flow)	9.9	3.0	2.7
Net debt	4,135,693	7,537,190	8,405,243
CAPITAL INVESTMENT			
Petroleum & natural gas properties	1,081,294	111,426	5,328,495
Exploration & Development	6,910,534	2,894,247	1,708,172
Facilities and well equipment	2,595,668	3,873,963	1,964,441
Other capital additions	38,159	32,579	9,599
Divestitures	(426,484)	0	(460,000)
Total capital investment	10,199,171	6,912,215	8,550,707

**1998 per share numbers adjusted for a four for one consolidation on October 16, 1998*

President's Message

I am very pleased to present Devlan's 2000 Annual Report. The year opened with much anticipation and, without exception, we met or exceeded all financial and operating goals as we continued to deliver strong results quarter after quarter. **Cash flow was more than quadruple the previous record year of 1999. For the first time ever, Devlan had net earnings, delivering $1.76 million.** Production averaged almost 6,900 Mcfd and on January 10, 2001, we broke the 10,000 Mcfd (1,000 boepd) hurdle for the first time. As predicted, natural gas prices continued to increase throughout the year and finished at record levels.

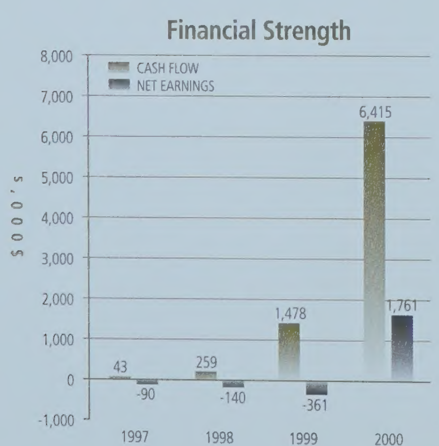
Devlan continued to move ahead on its strategic plan, developing its core area, thereby building a strong foundation to support increased exploration activity in Alberta and in Canada's Northern Frontier. This progression from development to exploration illustrates one of the adjustments we have made to the Company's focus and is the next step as we continue to build the Company. Another adjustment is our move from the Canadian Venture Exchange to the Toronto Stock Exchange. This increased our trading volume and visibility and has exposed Devlan to a broader range of investor.

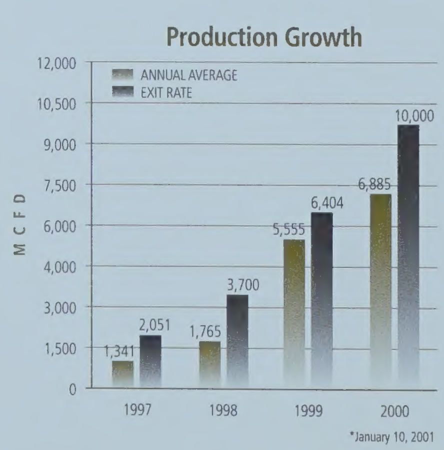
"...progression from development to exploration illustrates one of the adjustments we have made to the Company's focus..."

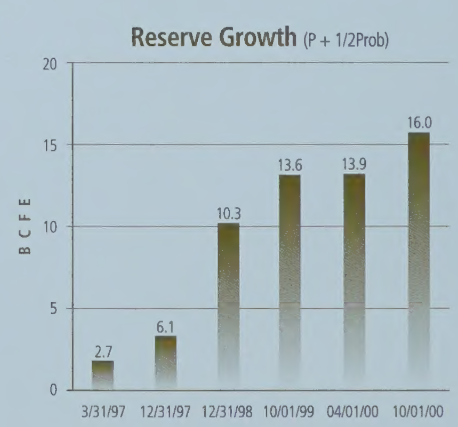
Cashflow per share was up 160% in 2000 to 65¢ per share while earnings, as mentioned previously, were positive for the first time at 18¢per share, up from a 6¢ loss in 1999. Capital investment increased 46% over 1999 to $10.2 million. This represented 157% of cashflow, an indication of our ability to access the equity markets. Looking forward, we have budgeted $10.5 million to capital expenditures in 2001. This represents 85% of our discretionary cashflow plus $3 million of flow-through funds we raised in 2000. Throughout the year, we managed our debt position and at year end, debt was 1.5 times trailing cash flow. Devlan's finding and development costs were higher in 2000 due, in part, to the significant pre-investment in the Northwest Territories and higher costs flowing from the service sector. We have gathered momentum through 2000 and, with the projected outlook for natural gas prices, 2001 looks to bring continued growth of production, cashflow and earnings.

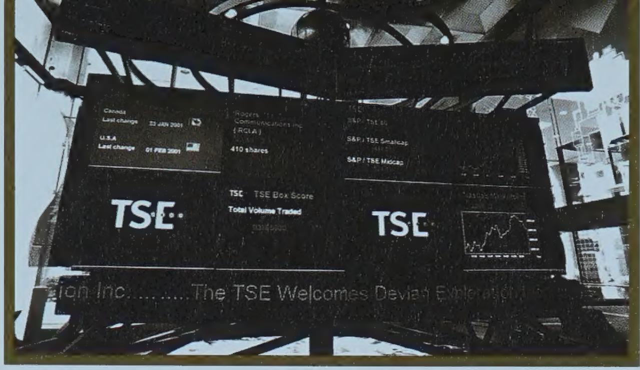
Grandview Hills, Northwest Territories

With a view to the future, the expanding natural gas demand and the need for major new gas supplies to meet that demand, Devlan assembled a large exploratory land position in the Mackenzie Valley region of the Northwest Territories. The rights to three contiguous exploration leases totaling 871,000 acres were purchased during the late summer of 2000. These properties are situated along the Mackenzie River, approximately 100 miles south of Inuvik. Existing seismic and satellite imagery indicate large undrilled structures and hydrocarbon accumulation with multi zone potential from 1,200 to 4,000 meters. The exploration program was kicked off in December and has continued through Q1 2001.







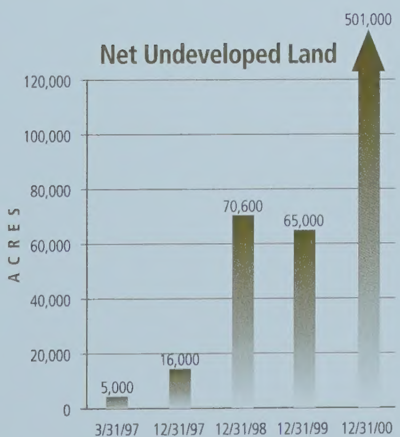


Subsequent Events

In January 2001 Devlan shot 54 kilometers of 2D seismic at Grandview Hills. This complemented the 1,230 kilometres that were purchased in late 2000. Upon evaluation of the new seismic, Devlan spudded the first of three shallow wells on January 28th. At the time of this writing, the first two wells have been logged and cased, with encouraging results. Devlan expects to be finished the third well by the first week of April. Upon completion of Phase 1, Devlan and its partner will have four years to explore the three leases. Plans for Phase 2 include drilling two deep gas wells during winter 2001/02 targeting formations indicated on the existing seismic.

On January 10th, we brought on production at Mooney, just southwest of Marten Hills. This added approximately 2,100 Mcfd and 38 bbld of natural gas liquids. As previously mentioned, this took Company production over the 1,000 boepd benchmark for the first time.

Devlan commenced trading on the Toronto Stock Exchange on February 6, 2001 under the symbol "DXI". Since then, the Company's average trading volume has increased to over 30,000 shares per day.



In March, Devlan shot 27 km of 2D seismic at Marten Hills. This seismic program indicates 2 potential locations. Also in March, the Company drilled and completed 2.0 gross (1.5 net) wells at our Diamond City property near Lethbridge. The first well has production tested at 800 Mcfd (400 Mcfd net) and Devlan will tie it in to the Company's Diamond City facilities. The second well has been logged and cased and we are encouraged by the results. We hope to drill two more wells (100% W.I.) during 2001. These wells will be drilled to the Bow Island formation at 1,000 metres. Devlan has targeted $1.0 million for seismic and drilling in Lethbridge in 2001.

Strong natural gas prices have carried through the first quarter of 2001 and it appears these prices will prevail for the next 12 to 36 months. Devlan is well positioned to capitalize on these prices with 95%+ of our production being natural gas. The portfolio is currently unhedged. Our balance sheet remains strong and we will continue to evaluate opportunities to grow the Company and increase shareholder value. We will continue to press ahead; to take advantage of our prospect portfolio; to take the next step in our evolution.

We would like to express our gratitude to the residents of Tsiigehtchic, Fort MacPherson, Aklavik and Inuvik, and the Gwich'in people for their hospitality and cooperation. Without their support, Devlan's northern exploration project would not have been the success it is.

Finally, I would like to thank our employees for their dedication and outstanding performance in 2000, acknowledge the support of our shareholders and thank our Board of Directors for their counsel and guidance.

Marty Cheyne
President

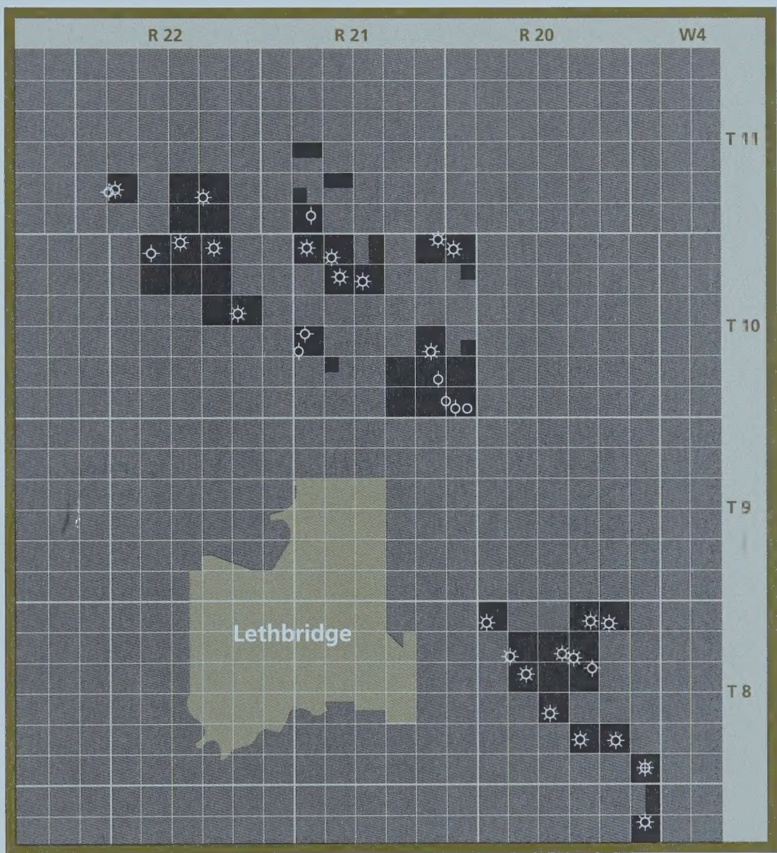
Review of Operations

Devlan's 2000 exploration and development activities focused on the shallow gas prospects within our core areas of Marten Hills in central Alberta and our Lethbridge properties in southern Alberta. Devlan's exploration activities will be expanded in 2001 with the Northwest Territories acquisition that took place on September 21st, 2000 and our ongoing 3D seismic program in the W5 region of Alberta.

Lethbridge

Devlan owns 7,457 net undeveloped acres in the Lethbridge area. The developed property supports three compression facilities and associated gathering pipelines. Located in southern Alberta, the production is from the Bow Island formation at 1,000 metres and is characterized by dry, sweet natural gas production.

Keho Lake/Iron Springs property is a long-life shallow gas field made up of nine wells and a Devlan operated compression facility located at 4-11-11-22 W4, north of the city of Lethbridge. Coaldale consists of twelve wells located southeast of Lethbridge that produce into a Devlan operated 3 Mmcfd compression facility at 4-15-8-20W4M. Diamond City is situated north east of Lethbridge with two wells producing into a third compression facility located at 08-02-10-21-W5. All three properties are long-life shallow gas fields. Production from these fields averaged 1,659 net Mcfd during the twelve months ended December 31, 2000. The Sproule Report dated October 1st, 2000 estimates total Proven Developed Producing Reserves of 3.67 Bcf gross (2.94 net). During November and December of 2000, Devlan continued to develop the area with a 25 kilometre seismic program that resulted in three prospective locations. To date, two locations have been drilled and a pipeline is currently being constructed.



Lethbridge Properties

Review of Operations

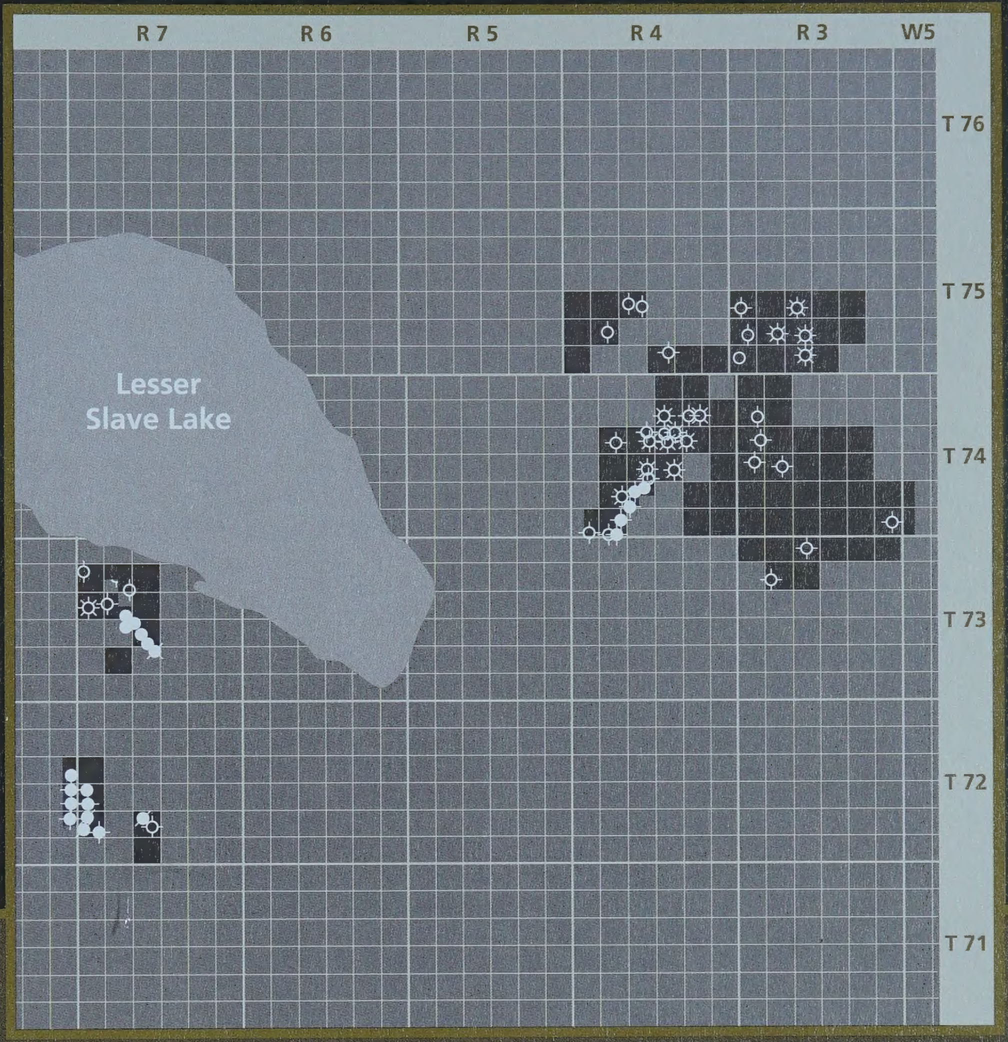
Marten Hills

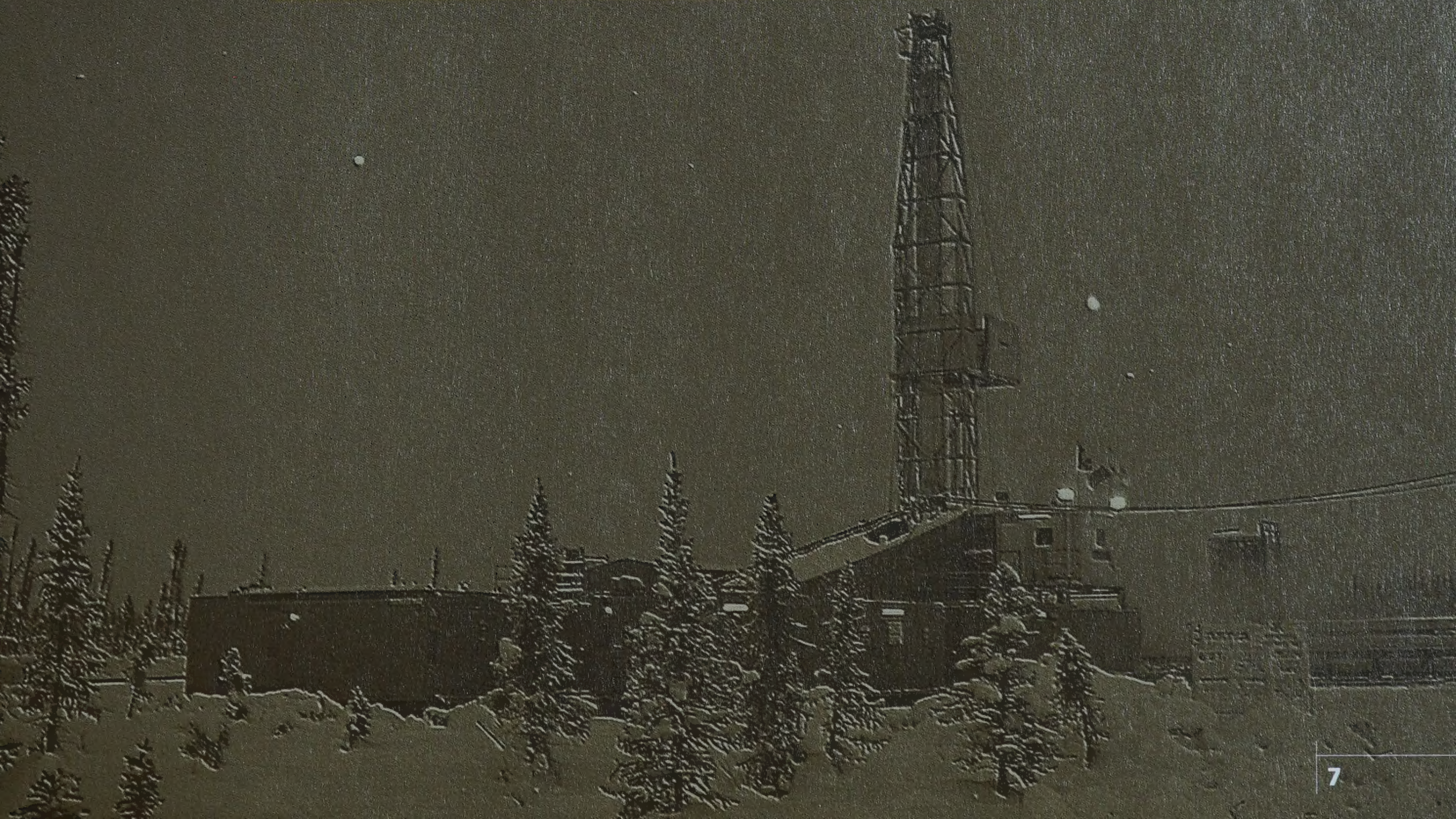
Devlan Marten Hills is comprised of 50,963 net acres, centred on Twp. 74-75, Rge. 03-04 W5M. As of December 31, 2000, Devlan's interest was 39,360 net undeveloped acres and 11,603 net developed. Gas production from this field averaged 5,478 Mcfd for the year, with an exit rate of 7,107 Mcfd gross (6,881 net) as of December 31, 2000. Production is obtained from Cretaceous sands at depths ranging from 400 to 1,000 metres. The Sproule Report dated October 1, 2000 estimates the Corporation's total Proven Reserves of 10.562 Bcf gross (7.865 net) based on volumetrics using assigned drainage areas, by decline curve analysis, or by performance prediction. Producing formations include the Viking, Colony, Sparky, Clearwater and Wabiskaw.

Three exploratory wells were drilled at Marten Hills in June and July. A 7.8 km pipeline was constructed during the summer and the three wells were put on production in August. These wells added 4.327 Bcf gross (3.06 net) to the area's reserves. Of the four winter wells drilled at the end of December, two were cased as gas wells. The first, at 05-11-74-04-W5 was tied in subsequent to the year-end on February 26th, 2001. At the time of this writing the production volumes had not stabilized. The second well, at 06-16-74-04-W5 will be completed as a gas well after break up. A total of 106 km of seismic was utilized over the year, 30 km of proprietary data was shot and 76 km of trade data was purchased. The resulting information continues to broaden our understanding of the regional geology. Devlan is exploring for two distinct play types in the Marten Hills area; stacked sands draped over Banff structural highs, resulting in potential pay in the Viking, Colony, Sparky and Clearwater zones, and stratigraphically trapped Wabiskaw sands which occur in erosional cuts into the Paleozoic surface. Going forward Devlan will focus its ongoing seismic program to the south east across the remaining 39,360 undeveloped acres.

Mooney

In Q4 2000, Devlan participated as to 30% in the construction of a 40 km pipeline and 7 Mmcfd gas plant to tie in two wells south of Lesser Slave Lake. As of December 31, 2000, Devlan's 30% interest was 1,632 net acres undeveloped and 384 net developed acres. There are presently two wells producing into the system. The 6-18-72-7W5M well produces from the Keg River sand and production tests indicated that the well is capable of flowing gas at over 7.0 Mmcfd gross (2.1 net) at a stabilized flowing pressure of 2100 psi. The other well, 6-8-73-7W5M, also a Keg River well, tested at 4.3 Mmcfd gross (1.29 net). The Sproule Report dated October 1, 2000 estimates Devlan's total Proven Undeveloped Reserves at .72 Bcf gross (.52 net) and 12.6 Mbbl gross (8.8 net) of liquids based on volumetrics using assigned drainage areas, by decline curve analysis, or by performance prediction. Currently, the gross production is 7.11 Mmcfd (2.13 net to Devlan) with 119 bpd (35.7 net to Devlan) of liquids. Subsequent to the year end Devlan acquired an adjacent 1280 acres in Mooney. These lands were acquired for Gilwood oil production. An existing well at 14-9-72-7W5M was producing over 60 barrels of oil per day prior to being shut-in in January 1997. It is Devlan's plan to re-enter the 14-9 well and bring the Gilwood zone back on production.


R 7
R 6
R 5
R 4
R 3
W5
T 76
T 75
T 74
T 73
T 72
T 71
Lesser
Slave Lake
Mooney
Marten Hills



CONTINUED

Review of Operations
Ongoing Opportunities

West Central Alberta: 3D Seismic

In June of 2000, Devlan entered into an agreement with a US based independent oil and gas exploration company that owns a license agreement to view a large inventory of 3D seismic data in the United States and Canada. The Canadian data is generally concentrated in the W5 region of Alberta. The US exploration company has never looked at any data in Canada and approached Devlan to act as their operator and technical advisors in Canada. Initially, Devlan is able to view every third mile of the seismic. This allows Devlan's exploration group to accurately map trends and determine where prospective opportunities could exist. Once a prospect area is defined, the entire 3D volume is mapped over that prospect. Once a drillable location is mapped, Devlan then purchases the seismic data. Devlan only has to purchase enough seismic to adequately cover the prospect. Once Devlan has purchased the data, the US company is paid a fee of $25,000 and is carried for 12.5% to casing point on any well drilled by Devlan as a result of using this seismic data.

The 3D siesmic allows Devlan's exploration group to accuratey map trends and determine prospective opprtunities..

Northwest Territories

Northwest Territories

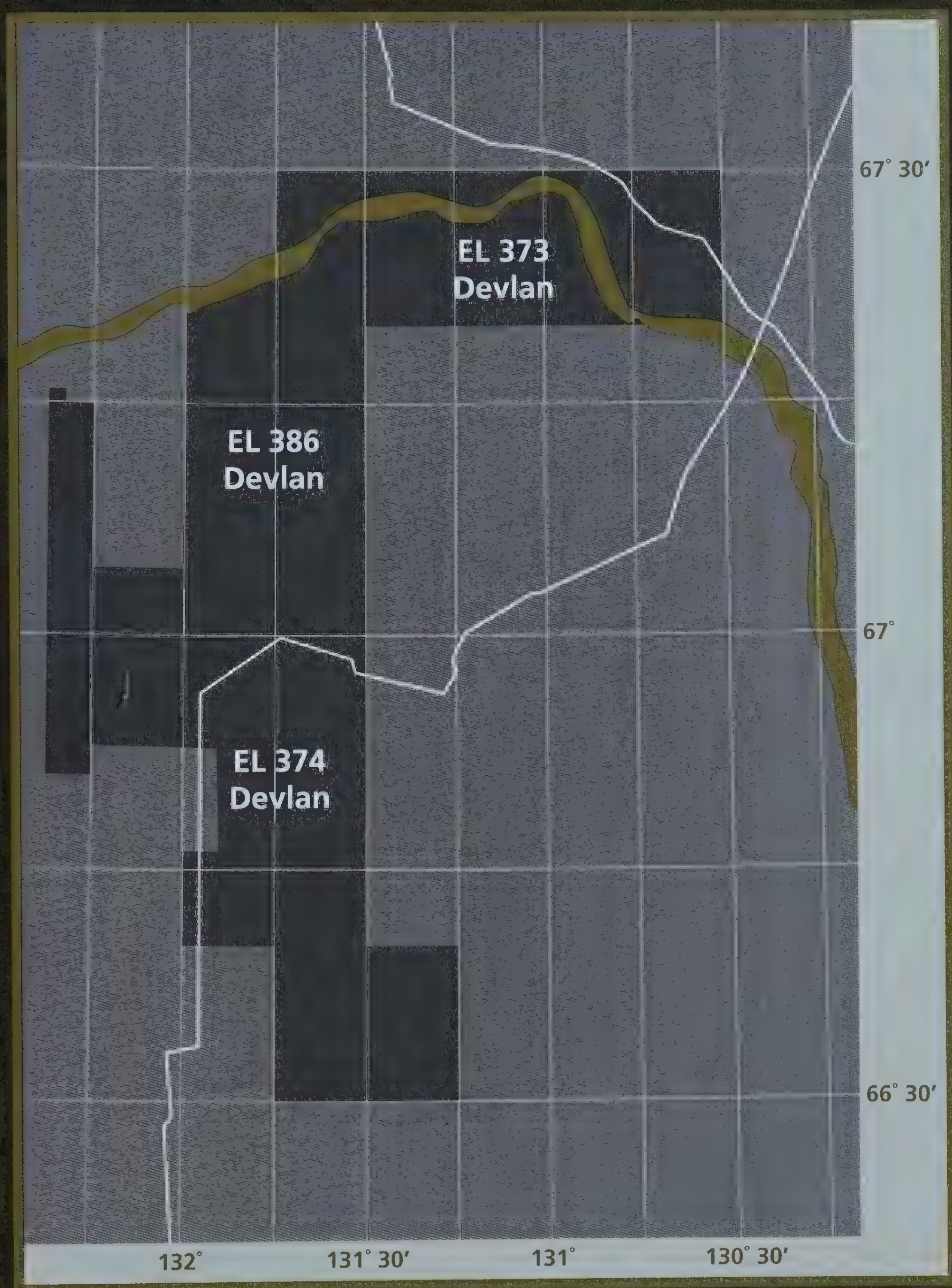
Grandview Hills, Northwest Territories

In late winter 2000, Devlan made a strategic decision to expand its exploration focus. In late summer the Company purchased the exploration rights to three leases in the Northwest Territories. Devlan acquired the exploration rights to 871,000 contiguous acres in the Grandview Hills region along the Mackenzie River in a previously under-explored region of the Northwest Territories. The company has moved in this direction for several reasons, namely:

- It is an opportunity to be first into an increasingly competitive area.
- This is an extensive, contiguous land position for less than $1/acre.
- Devlan's ability to act quickly allowed the Company to shoot seismic and drill three earning wells before this large land holding was set to expire.
- The region holds enormous hydrocarbon potential.
- The lands are situated along the Mackenzie River, in an area that is adjacent to proposed natural gas pipelines.

During the spring and summer of 2000, Devlan began negotiations with a junior oil and gas company whose major asset was four exploration licenses encompassing 871,000 acres in the Grandview Hills region of the Northwest Territories. Richfield Oil had explored these lands initially in the early 1960s. The geologist in charge of mapping the Grandview Hills in the 1960s was instrumental in posting and acquiring this acreage in 1995. His field work plus subsequent seismic indicated numerous undrilled structures in this area. Surface seeps of oil and gas along with oil and gas shows in the few wells drilled in the area indicated the presence of hydrocarbons. Devlan believes that this large acreage block has the possibility of world-class oil and gas accumulations at depths to 4,000 metres. The lands were approaching the end of their primary terms - two licenses were set to expire in March 2001 and the third in May 2001. After speaking with the Crown it was confirmed that the only way to extend these licenses past their primary term, and to hold them for another four years, was to drill one well per license to a sufficient depth to penetrate a potential hydrocarbon bearing zone. In September 2000 Devlan finalized the negotiations with the original land owners and acquired 870,605 net acres of land for $400,000 plus 300,000 shares of Devlan stock. Devlan immediately began the process of barging drilling equipment and seismic equipment from Norman Wells to Tsiigehtchic, a small community approximately 120 km from the properties. In October Devlan agreed to a 50-50 partnership with an intermediate oil and gas producer. Devlan retained operatorship of the project through the initial seismic program and the drilling of the first three wells. A full time project manager was moved to Tsiigehtchic in late October 2000 and commenced construction of a 120 km ice road. In December Devlan purchased 1,230 kilometres of seismic data that bisected the three leases and in January shot 54 km of 2D seismic. On January 28, 2001 the Company spudded the first of three wells – ***Devlan et al Tree River B-10.*** At the time of this writing, the first two wells had been logged and cased, and the third is nearing total depth. Devlan is encouraged by results to-date.

Grandview Hills, NWT



Northwest Territories

Geological Review

The Grandview Hills area was initially explored in the early 1960s. Earliest exploration was limited to surface studies dictating where to drill. In the early 1960s, seismic was shot after the first well in the Grandview Hills region was drilled. A total of five wells were drilled within our area of interest. One well drilled adjacent to Devlan's land flowed gas while drilling from a depth of only 600 metres. Other wells encountered oil and gas shows while drilling and regional seismic indicates numerous undrilled features. All exploration was halted in the Territories due to a federal government moratorium. The moratorium was lifted in 1995 and the Grandview Hills licenses were obtained in 1995 and 1996. Extensive field studies, oil and gas shows at surface and seismic indicate the potential for world class reserves.

The Grandview Hills prospects are situated on a carbonate shelf bordered to the west (downdip) by a 4,600 metres thick basin filled with rich organic shales. Eastward, these deep sea sediments dip upward and change laterally into shallow water carbonates. The oil and gas generated by the organic shales will migrate updip and can become trapped in porosity within the shallow water carbonates. Numerous surface oil and gas seeps, seismic shot-hole blowouts and oil and gas shows in the wells drilled near the Grandview licenses verify the existence of hydrocarbons in the subsurface. A nearby lake called Fishing Lake has a gas seep that is believed to have flowed gas at a rate of 750 Mcfd.

Several play types have been identified on the Grandview lands: 1) Existing seismic shows Devonian aged structures at 450 to 1,200 metres large enough to cover 7.5 square kilometres, an existing well has over 90 metres of Devonian aged porous dolomite, yielding potential fields of 100 to 300 million barrels. 2) Ordovician and Cambrian aged sediments appear to be prospective for gas production at depths below 1,500 metres. Seismic shows the Ordovician to be prospective for reef development at 1,800 metres and Cambrian clastic sediments are pinching out against large basement structures at depths of 4,000 metres covering enough area to yield fields larger than 1 Tcf in size.

Management's Discussion & Analysis

The following discussion and analysis should be read in conjunction with the financial statements contained in this annual report.

Overview of Financial Results

2000 was the finest year in the Company's history in terms of financial results. With unprecedented natural gas prices and several noteworthy discoveries, the Company was able to bring its debt to a very reasonable level and was also able to wipe out its cumulative deficit. Following is a discussion of the Company's significant financial achievements for the year.

Revenue

Production revenue

The Company enjoyed a dramatic increase in production revenue in 2000. The addition of three new wells (100% Devlan) at the end of the third quarter and two wells (30% net to Devlan) at the end the fourth quarter, lead to a 140% increase of production revenues from $4,939,655 in 1999 to $11,871,472 in 2000. This increase is the result of a 20% production growth combined with a 106% increase in average sales prices for the year

Royalties

Along with the significant increase in revenues came a significant increase in royalty expense. Royalties (net of Alberta Royalty Tax Credit) in 2000 were $2,471,274 while in 1999 they were $886,979. This translates into an aggregate increase in 179%. As a percentage of production revenue, royalties were 21% in 2000 as compared to 18% for 1999. Crown royalties represent the largest component of this increase. All Devlan's new production in 2000 was on Crown land.

Expenses

Operating

Operating expenses were $1,440,910 in 2000 compared to $1,176,335 in 1999. Although aggregate costs increased by 23% in 2000, they dropped from 23% of revenues in 1999 to 12% of revenue in 2000. Operating efficiencies in the field were the main contributors to this proportionate reduction notwithstanding that five new wells commenced production during the year.

General and Administrative

General and administrative expenses were $927,781 for 2000 compared to $647,508 for 1999. The increase of 43% was mainly attributable to exploration and development activity, which resulted in higher labor, consulting and office costs. Significant new activity was related to the acquisition of the Northwest Territories land and the preliminary work related thereto.

Interest expense

Interest expense decreased 4% from $750,433 in 1999 to $717,527 in 2000. Major contributors to the decrease were the restructuring of the Company's bank debt during the year, a significant pay down of both the capital leases and the line of credit by the end of the year. Furthermore, the Company enjoyed lower interest rates on its debt towards the end of 2000.

Depletion, depreciation and amortization

Depletion, depreciation and amortization expense increased from $2,175,731 in 1999 to $4,095,630 in 2000. This represents an 88% increase and was attributable to two major factors. The first is production volumes increasing by 20%. Second, in the third quarter the Company charged $1,420,156 to depletion expense with respect to its Wyoming properties. The United States properties did not meet the "ceiling test" criteria and therefore required a write-down of the property. The Company still holds the lands and is evaluating the future prospects with respect to its development

Income Taxes

Current income taxes result solely from the Company's liability for capital taxes. Future income tax expense was $1,030,551 in 2000 while no comparable provision was booked in 1999. The increase was the result of the Company's adoption of the new CICA Handbook recommendations, which became effective January 1, 2000. Under this method, the Corporation measures the tax effect of the difference between the carrying amounts of its assets and liabilities against their underlying tax values. The difference is accounted for on the income statement.

Management's Discussion & Analysis

Net Earnings

Net earnings increased 562% in 2000 to $1,760,547 versus a net loss of $381,037 in 1999. Despite the $1.4 million depletion charge for the Wyoming properties and the new accounting for future income taxes that yielded a charge of $1.0 million to earnings, the Company was able to eliminate its deficit with its net earnings during 2000.

Cash Flow from Operations

Cash flow reached a record $6,414,548 during 2000. This amounted to an increase of 334% over the $1,478,400 realized in 1999. This increase is attributable to the increase in plant gate prices for natural gas as well as increased production volumes. Cash flow per basic weighted average Common Share increased to $0.65 in 2000 versus $0.25 per share in 1999.

Netbacks

Field netbacks in 2000 were $3.38 per Mcf, which represents a 141% increase from $1.40 in 1999. As a result of the increased prices and production levels for the company, our cash flow netbacks improved 274% from $0.73 per Mcf in 1999 to $2.73 per Mcf in 2000.

Assets

Cash and short term deposits

Cash and short term deposits rose to $7,550,324 at the end of 2000 as a result of three flow-through share/warrant offerings, as well as from operations. This was a 438% increase over the 1999 level of $1,404,048. The cash accumulations will be used to fund our winter 2000/2001 drilling program.

Accounts receivable

Accounts receivable increased from $989,830 in 1999 to $3,949,644 in 2000. The increase of 299% was mainly attributable to significantly higher revenues in December and to a lesser extent increased receivables from joint venture billings.

Prepaid expenses and deposits

Prepaid expenses and deposits rose 43% from $210,902 in 1999 to $300,872 in 2000. Prepaid expenses relate mainly to lease rentals and governmental fees paid in advance. These amounts have risen as result of increased exploration and development work by the Company. Also, the Corporation had to increase its Crown royalty deposit as a result of increased production.

Liabilities

Accounts payable and accrued liabilities

Accounts payable were $2,495,587 at December 31, 1999 as compared to $6,242,510 at December 31, 2000. This represents a 150% increase. The increase was mainly attributable to costs associated with three wells drilled in Marten Hills, the preliminary costs associated with our Northwest Territories development and the completion of our Mooney facilities. All of these projects were in December.

Long-Term Debt

Bank debt increased from $2,820,000 in 1999 to $6,000,000 at the end of 2000. The increase of 113% was attributable to the additional funds advanced by Devlan's bank to assist, in part, with the repayment of our related party debt. Another portion of the new term debt was used to fund a combination of capital expenditures as well as our working capital commitments.

Obligation under capital lease

The Company continued to repay its capital lease obligations during the year without taking on any new ones. As a result, the total capital lease obligations outstanding at the end of 2000 declined 26% from the 1999 year end amount of $3,576,180. The aggregate amount of capital leases outstanding at December 31, 2000 was $2,663,709.

Advance from a related party

Advances from Bredal Energy Corp. were repaid in full during the year with the assistance of a new bank loan and increased cash flows. The amount outstanding at December 31, 1999 was $1,250,203.

Long-Term Advance from a Related Party

On September 21, 2000 the Corporation received $1,000,000 from Bredal Energy Corp. as an advance to be converted to a subordinated, convertible debenture as soon as the requisite approvals from the Board of Directors and the security commission were received. Under the terms of the debenture, the Company will pay interest monthly at the rate of Canadian Western Bank prime business lending rate plus 1%. The debenture is for a term of two years and is convertible into common shares at the option of the holder at any time prior or at maturity. The conversion price has been set at $1.35 per common share for every $1.00 of debenture. The maximum potential issuance of common shares pursuant to the conversion will be 740,741.

Deferred Revenue

Deferred revenue (net of related costs) at the end of December 1999 was $1,159,971 and at December 31, 2000 was $812,913. The deferred revenue arose in 1998 and 1999 as a result of the Company entering into sale and leaseback arrangements. The deferred revenue continues to be amortized on a straight-line basis over the term of the respective capital leases.

Future Income Taxes

The Corporation adopted the new CICA Handbook provision contained in Section 3465 effective January 1, 2000. The most significant impact of this change for the Corporation has been that the Company now records the impact of renouncing expenses under the "Flow Through Share" legislation to the future income tax liability rather than reducing its exploration and development expenditures carried in the books. As a result, the future income tax liability increased from nil in 1999 to $4,250,811 in 2000.

Capital Expenditures

Capital expenditures in 2000 were $10,625,655 ($9,396,842 net of a flow-through share tax benefit adjustment) compared to $6,912,215 ($5,205,965 net of a gain on a sale leaseback transaction) in 1999. This represents a 54% increase in 2000. Significant capital expenditures in 2000 were:

- $805,000 for the acquisition of the land in the Northwest Territories.
- $1,663,000 for the tie in of two wells and construction of a gas plant at Mooney, Alberta.
- $700,000 for the acquisition of seismic data for the Northwest Territories.
- Drilling, completing and tieing in three new productive wells (100% Devlan) in the third quarter at a cost of $1,897,000.
- $1,210,000 for preliminary costs for seismic work and three proposed wells in the Northwest Territories.

Risk Management

The Company's results are influenced by exploratory activities, environmental concerns, inflation, commodity prices, world markets, royalties, interest rates, taxes, operating costs, weather and the quality of management's decisions. The Company seeks to manage its risk exposure through a combination of sound operating practices, insurance, internal controls and the use of commodity fixed price contracts.

Exploration activities are extremely risky in terms of financial outcomes. Devlan mitigates some of the risk by using flow-through share financing. The Company has also entered into an agreement with a United States company to view seismic data databases in certain portions of Alberta at no charge. This unique contract allows Devlan to identify a drilling opportunity and then buy the relevant data. Operational risk is minimized by using very experienced field contractors to operate our properties. There was no turnover in our contract operators throughout 2000. Furthermore, Devlan operates approximately 94% of its wells and to this end the costs incurred can be controlled by our experienced staff.

Management's Discussion & Analysis

Devlan continues to operate within the legislated environmental standards. Contingency plans are in place for timely response to any environmental emergency.

There are many factors which are outside of the Company's control such as, inflation, world markets for natural gas, interest rates and taxes. However, the Company continually monitors the financial environment and because of its size and experience can react quickly to the changes. Prices for natural gas are managed by entering into fixed price contracts or by purchasing floor prices. Both of these types of contracts ensures that we attain certain levels of prices for our gas.

All of the above are managed in a team environment and each employee challenges the others to resolve issues for the betterment of the Company.

Corporate Governance

As Devlan progressed towards a listing on the Toronto Stock Exchange in the last quarter of 2000, the Company experienced an increase in the expectations of both the regulatory authorities and its shareholders. Devlan's Board of Directors have been and continue to be active in responding to these guidelines and challenges.

The Board of Directors meet every month. The rapidly and continually changing business environment dictates the need of ongoing consultations with the Board. They meet and discuss strategic issues such as significant investments including the North West Territories, gas pricing strategies, investor relations, compensation issues, credit management and budgets. All Board members receive monthly financial statements as well as statistical analysis of the data.

The Audit Committee is made up of four independent and unrelated directors. They have instituted a program of meeting quarterly to review and approve the interim and annual financial statements. They also meet twice annually with the external auditors to discuss the adequacy of internal controls, significant issues that impact the financial statements as well as processes for managing risk. The Audit Committee resolved that in going forward into 2001, they would adopt the suggestion by the Ontario Securities Commission that interim financial statements be reviewed by the external auditors. While this review is not a requirement, the Audit Committee felt that there would be benefits derived from this practice in terms of ensuring the integrity of the financial statements.

The most significant assets of the Corporation are its oil and gas reserves and land holdings. Devlan ensures that disclosures of reserve data in its financial statements, to its creditors and to its investors withstand proper scrutiny. To this end, the Corporation has its reserves evaluated at a minimum of once a year by an independent engineering firm. The current engineering consultants are Sproule Associates Limited. With respect to evaluating our undeveloped land positions, fair market values are derived by the external consultants, Seaton-Jordan & Associates Ltd. on an annual basis.

The Board of Directors is committed to ensuring that the interests of its shareholders are well managed in a responsible fashion. The adoption of the above policies and the ongoing review of the Company's policies and procedures will ensure that this ongoing commitment is met.

Management's Report

The accompanying Consolidated Financial Statements, Management's Discussion and Analysis of Financial Condition and Review of Operations and all other information presented in the Annual Report is the responsibility of the Company's management. The Management's Discussion and Analysis of Financial Condition and Operating Results is reflective of management's views of the industry environment, current and future trends, and their effect on the Company's December 31, 2000 Financial Statements and future results.

The Consolidated Financial Statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The Company's internal controls have been designed and maintained by management to provide reasonable assurance that assets are properly safeguarded, and that the financial records are sufficiently well-maintained to provide relevant, timely and reliable information to management and to allow preparation of the Consolidated Financial Statements in accordance with the Company's accounting policies. Certain estimates are made by the management in the preparation of the Consolidated Financial Statements. In the opinion of management, the Consolidated Financial Statements have been prepared within reasonable limits of materiality, and within the framework of the significant accounting policies as summarized in the Notes to the Consolidated Financial Statements.

Deloitte & Touche LLP, an independent firm of chartered accountants, have been appointed by the Shareholders to examine the Consolidated Financial Statements and to report to the Shareholders. The Audit Committee, consisting of non-management directors, has reviewed the Consolidated Financial Statements with management to determine if management has fulfilled its responsibilities for the preparation of the Consolidated Financial Statements. The Audit Committee has reported its findings to the Board of Directors, who have approved the Consolidated Financial Statements.

Martin J. Cheyne, President &
Chief Executive Officer

Wm. M. Matheson, Vice President
Corporate Development & Chief Financial Officer

Auditors' Report

To the Shareholders of Devlan Exploration Inc.:

We have audited the consolidated balance sheets of Devlan Exploration Inc. as at December 31, 2000 and 1999 and the consolidated statements of earnings (loss) and retained earnings (deficit) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP
Chartered Accountants

Calgary, Alberta
February 16, 2001

Consolidated Statements of Earnings (Loss) and Retained Earnings (Deficit)

Years Ended December 31,	2000 $	1999 $
REVENUE		
Production revenue	**11,871,472**	4,939,655
Royalties (Note 12)	**(2,471,274)**	(886,979)
Amortization of deferred revenue	**472,180**	316,294
Interest and other	**128,931**	—
	10,001,309	4,368,970
EXPENSES		
Depletion, depreciation and amortization	**4,095,630**	2,175,731
General and administrative	**927,781**	647,508
Interest and bank charges	**717,527**	750,433
Operating	**1,440,910**	1,176,335
	7,181,848	4,750,007
EARNINGS (LOSS) BEFORE INCOME TAXES	**2,819,461**	(381,037)
INCOME TAXES (Note 10)		
Current	**28,363**	—
Future	**1,030,551**	—
	1,058,914	—
NET EARNINGS (LOSS)	**1,760,547**	(381,037)
DEFICIT, BEGINNING OF YEAR	**(1,644,495)**	(1,263,458
REPURCHASE OF SHARES (Note 8(d))	**(43,917)**	—
RETAINED EARNINGS (DEFICIT), END OF YEAR	**72,135**	(1,644,495)
EARNINGS (LOSS) PER SHARE (Note 9)		
Basic	**0.18**	(0.06)
Fully diluted	**0.12**	(0.06)

Consolidated Balance Sheets

December 31	2000 $	1999 $
ASSETS		
CURRENT		
Cash and short term deposits	**7,550,324**	1,404,048
Accounts receivable	**3,949,644**	989,830
Prepaid expenses and deposits	**300,872**	210,902
	11,800,840	2,604,780
Petroleum and natural gas properties and facilities (Note 3)	**21,377,616**	15,094,122
	33,178,456	17,698,902
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**6,242,510**	2,495,587
Income taxes payable	**30,314**	—
Current portion of long-term debt (Note 4)	**2,700,000**	1,440,000
Current portion of obligation under capital lease (Note 5)	**944,031**	1,079,971
Advance from related party (Note 6)	—	1,250,203
	9,916,855	6,265,761
Long-term debt (Note 4)	**3,300,000**	1,380,000
Obligation under capital lease (Note 5)	**1,719,678**	2,496,209
Long-term advance from related party (Note 7)	**1,000,000**	—
Deferred revenue	**812,913**	1,159,971
Future site restoration and abandonment costs	**166,238**	111,406
Future income taxes (Note 10)	**4,250,811**	—
	21,166,495	11,413,347
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	**11,939,826**	7,930,050
Retained earnings (deficit)	**72,135**	(1,644,495)
	12,011,961	6,285,555
	33,178,456	17,698,902

APPROVED BY THE BOARD

Director ______________________ Director ______________________

Consolidated Statements of Cash Flows

Years Ended December 31,	2000 $	1999 $
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net earnings (loss)	**1,760,547**	(381,037)
Adjustments for:		
Depletion, depreciation and amortization	**4,095,630**	2,175,731
Amortization of deferred revenue	**(472,180)**	(316,294)
Future income tax expense	**1,030,551**	—
Cash flow from operations	**6,414,548**	1,478,400
Changes in non-cash working capital	**727,452**	(395,534)
	7,142,000	1,082,866
FINANCING		
Proceeds from issuance of common shares and warrants	**5,660,524**	4,122,274
Increase in long term debt	**3,180,000**	(1,440,000)
Proceeds from long term advances from a related party	**1,000,000**	—
Repayment of advance from related party	**(1,250,203)**	(759,797)
Repayment of obligations under capital leases	**(912,471)**	(904,953)
Proceeds from obligations under capital lease	**—**	3,047,953
Repurchase of common shares	**(158,217)**	—
	7,519,633	4,065,477
INVESTING		
Purchase of petroleum and natural gas properties	**(8,903,682)**	(3,714,839)
Proceeds from disposal of petroleum and natural gas properties	**426,484**	—
Purchase of administrative assets	**(38,159)**	(32,579)
	(8,515,357)	(3,747,418)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**6,146,276**	1,400,925
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**1,404,048**	3,123
CASH AND CASH EQUIVALENTS, END OF YEAR	**7,550,324**	1,404,048
FUNDS FLOW PER SHARE (Note 9)		
Basic	**0.65**	0.25
Fully diluted	**0.42**	0.13
SUPPLEMENTAL INFORMATION		
Cash interest paid	**687,244**	596,857

Notes to the Consolidated Financial Statements

Years Ended December 31, 2000 and 1999

1. SIGNIFICANT ACCOUNTING POLICIES

Petroleum and natural gas properties and facilities

Devlan Exploration Inc. (the "Company") follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs relating to the exploration and development of petroleum and natural gas reserves are capitalized on a country-by-country cost centre basis. Such costs include land acquisition costs, costs of drilling both productive and non-productive wells, well equipment, flowline and plant costs, geological and geophysical expenses and overhead expenses directly related to exploration and development activities.

Gains or losses on sales of properties are recognized only when crediting the proceeds to the recorded costs would result in a change of 20% or more in the depletion and depreciation rate.

Depletion and depreciation

Petroleum and natural gas properties and field facility costs are depleted using the unit-of-production method based on estimated proven reserves of petroleum and natural gas before royalties as determined by independent petroleum engineers. Proven natural gas reserves and production are converted to equivalent volumes of crude petroleum based on the approximate relative price ratio of 10 mcf of natural gas to one barrel of crude oil.

The net book value of the Company's petroleum and natural gas properties and facilities is subject to the cost recovery test ("ceiling test"). The Company estimates the future net revenues, using year end prices, plus the lower of cost and estimated fair value of unproven properties, less future site restoration and abandonment costs, general and administrative expenses, financing costs and income taxes. Any deficiency in the future recoverable costs as compared to the net book value is charged to current operations as part of depletion and amortization expense.

Depreciation of administrative assets is provided for on a declining basis at an annual rate of 20% to 30% depending on the asset category.

Future site restoration and abandonment costs

Estimated future site restoration and abandonment costs are provided for on the basis of estimated costs divided by the estimated economic life of the estimated proven reserves. Costs are estimated each year by management in consultation with the Company's independent petroleum engineers based on current regulations, costs, technology and industry standards. The annual charge is included in depletion and amortization expense and actual site restoration and abandonment expenditures are charged to the accumulated provision account as incurred.

Joint venture

Substantially all of the Company's exploration, development and production activities are conducted on its own account. However, the Company does have a small number of properties for which there are joint venture partners. The Company also has minority positions in a small number of wells operated by other joint venture partners. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

Flow-through shares

Share capital includes flow-through shares issued pursuant to certain provisions of the Income Tax Act (Canada). Under the Act, where the proceeds are used for eligible expenditures, the related income tax deductions may be renounced to subscribers. As the funds are spent a future income tax liability is established, with a corresponding reduction to share capital.

Hedging

The Company periodically enters into forward contracts to reduce its exposure to price fluctuations on a portion of its natural gas production. The contracts are not used for speculative trading purposes. Gains or losses on these contracts are reported as adjustments to natural gas revenue in the related production month.

Deferred revenue

Deferred revenue represents the gains on the sale of four compressor facilities (net of related costs), which are subject to sale and leaseback agreements. Two facilities were sold in 1998 and another in 1999. The deferred revenue is recognized in income on a declining-balance method consistent with the depletion policy utilized for the related compressor facilities under capital lease.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes
Effective January 1, 2000, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook with respect to income taxes. Under this method, future income tax liabilities and future income tax assets are recorded based on temporary differences - the difference between the carrying amount of an asset and liability in "the consolidated balance sheet and its tax basis. Prior to that date, the Company followed the deferral method of accounting for income taxes.

2. CHANGE IN ACCOUNTING STANDARD

Effective January 1, 2000, the Company adopted the new accounting recommendation of the CICA, for accounting for income taxes using the liability method. The new policy was applied retroactively and did not result in an adjustment to the Company's retained earnings. However, as a result of the new recommendations, $1,228,813 was capitalized to petroleum and natural gas properties and facilities in respect of flow-through share tax benefits renounced to investors, with a corresponding increase to future tax liability. For the year ended December 1999, the Company followed the deferral method of accounting for tax effects of timing differences between taxable income and income as recorded in the financial statements.

3. PETROLEUM AND NATURAL GAS PROPERTIES AND FACILITIES

		2000	
	Cost $	Accumulated Depletion and Amortization $	**Net Book Value $**
Canada			
Petroleum and natural gas properties and facilities	26,461,652	5,341,825	**21,119,827**
Administrative assets	87,892	30,769	**57,123**
	26,549,544	5,372,594	**21,176,950**
United States			
Petroleum and natural gas properties and facilities	1,620,822	1,420,156	**200,666**
	28,170,366	6,792,750	**21,377,616**

Included in depletion expense for the year ended December 31, 2000 was a ceiling test write-down of the United States petroleum and natural gas properties and facilities amounting to $1,420,156.

		1999	
	Cost $	Accumulated Depletion and Amortization $	Net Book Value $
Canada			
Petroleum and natural gas properties and facilities	16,312,648	2,864,090	13,448,558
Administrative assets	49,733	12,984	36,749
	16,362,381	2,877,074	13,485,307
United States			
Petroleum and natural gas properties and facilities	1,608,815	—	1,608,815
	17,971,196	2,877,074	15,094,122

Additions to petroleum and natural gas properties and facilities for the year amounted to $10,587,496 (1999 - $6,879,636) of which $3,544,639 (1999 - $1,458,547) was included in accounts payable and accrued liabilities. Also included as an adjustment to cost for the year was $1,228,813 (1999 - $Nil) with respect to flow-through share tax benefits which were reclassified to a future income tax liability. For the year ended December 1999, $1,706,250 of the capital additions relates to the gain on the sale and leaseback of a compressor.

The capitalized overhead expense for the year amounted to $184,130 (1999 - $149,899).

4. LONG-TERM DEBT

	2000 $	1999 $
Term loan bearing interest at bank prime plus 1%, for which a general security agreement and fixed and floating charge debenture over all the assets of the Company has been pledged as security, repayable in monthly principal instalments of $225,000 commencing on January 1, 2001	**6,000,000**	—
The Company had a bank credit facility for up to $3,500,000. Amounts outstanding bore interest at bank prime plus 1%, for which a general security agreement and fixed and floating charge debenture over all the assets of the Company had been pledged as security and were repayable in monthly principal instalments of $120,000 commencing November 1, 1999	**—**	2,820,000
	6,000,000	2,820,000
Less current portion	**2,700,000**	1,440,000
	3,300,000	1,380,000

In addition, the Company has a revolving bank credit facility for up to $1,000,000. Terms are interest at prime plus 1% and outstanding amounts, if any, of which a fixed and floating charge debenture over all the assets of the Company has been pledged as security and are repayable monthly. No amounts were outstanding on this facility at the end of the year.

Interest on long-term debt during the year amounted to $321,357 (1999 - $270,474).

The aggregate principal payments required to meet this obligation in each of the next three years are as follows:

2001	**$ 2,700,000**
2002	**2,700,000**
2003	**600,000**

5. OBLIGATIONS UNDER CAPITAL LEASE

The aggregate future minimum lease payments required to meet the obligations under the capital leases related to compressor facilities are as follows:

	2000 $	1999 $
Year ending December 31, 2000	**—**	1,389,174
2001	**1,162,755**	995,255
2002	**830,807**	830,807
2003	**1,070,643**	1,070,643
Total minimum lease payments	**3,064,205**	4,285,879
Less interest implicit in lease (rates ranging from 8% to 10.85%)	**400,496**	709,699
	2,663,709	3,576,180
Less current portion	**944,031**	1,079,971
	1,719,678	2,496,209

6. ADVANCE FROM RELATED PARTY

The advance from a company of which certain officers and directors of the Company are shareholders, was due on demand, bore interest at bank prime plus 2.5% and a floating charge debenture over the assets of the Company was pledged as security, second to the bank's security. Total interest on this indebtedness for the year amounted to $44,506 (1999 - $170,989).

7. LONG-TERM ADVANCE FROM RELATED PARTY

On September 21, 2000, the Company received $1,000,000 from a company of which certain officers and directors of the Company are shareholders. It is the intention of the parties that the advance will be converted to a $1,000,000 subordinated, convertible redeemable debenture due September 21, 2002, will bear interest at the rate of Canadian Western Bank prime rate plus 1% and the conversion price of the debenture will be $1.35 per share for every $1.00 of debenture, which translates into a potential issuance of 740,741 common shares. Interest on this advance amounted to $23,521 during the year.

8. SHARE CAPITAL

	Number of Shares	Amount $
Authorized		
Unlimited number of common shares		
Unlimited number of first preferred shares		
Unlimited number of second preferred shares		
Issued		
Common shares		
Balance, December 31, 1998	5,488,905	**4,390,589**
Private placement	97,222	**70,000**
Exercise of stock options	25,000	**20,500**
Private placement flow-through common shares (net of tax incentives renounced of $782,813 and issue costs of $222,616)	4,254,400	**3,248,961**
Balance December 31, 1999	9,865,527	**7,730,050**
Repurchased and cancelled (normal course issuer bid)	(147,100)	**(114,300)**
Issued for property acquisitions	350,000	**453,034**
Private placement	708,338	**1,119,866**
Private placement	1,000,000	**1,788,276**
Adjustment for tax incentives renounced under the flow-through share program	—	**(1,991,447)**
Balance December 31, 2000	11,776,765	**8,985,479**
Warrants		
Balance, December 31, 1998	—	**—**
Private placement	500,000	**200,000**
Private placement	194,444	**—**
Balance December 31, 1999	694,444	**200,000**
Private placement	1,787,420	**2,754,347**
Balance December 31, 2000	2,481,864	**2,954,347**
Total share capital at December 31, 2000		**11,939,826**

a) Conversion of debt

Effective December 30, 1999, $237,000 of debt owing to a related party (Note 5) was converted into 237,000 flow-through common shares at a value of $1.00 per share.

b) Warrants

The Company entered into subscription agreements with several investors for the issuance of flow-through special warrants dated October 31, 2000. The flow-through special warrants were issued on October 31, 2000 at a price of $1.67 per flow-through special warrants for aggregate gross proceeds of $2,984,992. The cost of the issue was $230,645. Each flow-through special warrants entitles the holder thereof to acquire, without payment of additional consideration, one common share of the Company. The flow-through special warrants may be exercised at any time until 4:00 p.m. (Calgary time) on the earlier of:

i. Five days after the date upon which a receipt for the prospectus to which the warrants relate has been obtained from the securities commissions; and

ii. October 31, 2001.

Flow through warrants under the prospectus that have not been exercised shall be automatically exercised and the common shares will be automatically issued.

As part of a private placement, effective July 16, 1999, the Company issued 194,444 warrants to purchase common shares at an exercise price of $1.00 by July 16, 2000. The exercise period for these warrants was subsequently extended to July 21, 2004. These warrants were assigned no specific value as all proceeds from the private placement are recorded in equity.

On May 11, 1999, the Company issued 500,000 warrants to purchase common shares before May 10, 2003 at an exercise price of $0.88 if exercised before May 10, 2000. The exercise price will increase by $0.10 per common share each year thereafter. These warrants were ascribed a value of $200,000 ($0.40 per warrant) as part of the consideration for entering into a capital lease arrangement.

c) Flow-through share private placements

Effective December 15, 2000, the Company closed a private placement for the issuance of 708,338 common shares at a price of $1.68 per common share. The cost of the issue was $70,142.

Effective December 22, 2000, the Company closed a private placement for the issuance of 1,000,000 common shares at the price of $1.90 per common share. The cost of the issue was $111,724.

Both of the above private placements were for the issuance of common shares pursuant to the flow-through share provisions contained within the Income Tax Act.

d) Normal course issuer bid

In March of 2000, the Company purchased and subsequently cancelled 125,000 of its common shares pursuant to a normal course issuer bid. The cost of the purchase was $124,944, of which $97,937 was charged to stated capital based on the average cost per share as of the date of repurchase, and the remaining $27,007 was an adjustment to retained earnings. In November of 2000, the Company purchased and cancelled a further 22,100 common shares. The cost of the purchase was $33,273 of which $16,363 was charged to stated capital based on the average cost per share as of the date of repurchase, and the remaining $16,910 was an adjustment to retained earnings.

e) Stock options

At December 31, 2000, the Company has granted to directors, officers and employees stock options for 936,500 common shares at $0.82 to $1.00 per share expiring between December 3, 2003 and September 7, 2004 as follows:

	2000		1999	
	Share Options	Weighted Average Exercise Price $	Share Options	Weighted Average Exercise Price $
Outstanding, beginning of year	551,500	0.89	375,000	0.82
Granted	385,000	0.88	211,500	1.00
Exercised	—	—	(25,000)	0.82
Cancelled	—	—	(10,000)	0.82
Outstanding, end of year	936,500	0.89	551,500	0.89
Exercisable, end of year	869,834		418,166	

	2000		1999	
	Options Outstanding			
	Number of Options Outstanding	Weighted Average Exercise Price $	Number of Options Outstanding	Weighted Average Exercise Price $
Exercise price				
$0.82	340,000	0.82	340,000	0.82
$0.84	285,000	0.84	—	—
$1.00	311,500	1.00	211,500	1.00
	936,500		551,500	

9. EARNINGS (LOSS) AND FUNDS FLOW PER SHARE

Earnings (loss) and funds flow per share are calculated using the weighted average number of shares outstanding during the year, which was 9,907,789 (1999 - 6,000,222). Fully diluted funds flow per share is calculated based on the maximum dilution giving effect to all potential share conversions. The number of shares outstanding at the end of the year taking into account the maximum dilution was 15,195,129 (1999 - 11,146,471).

10. INCOME TAXES

The Company has sufficient tax pools available to reduce its taxable income to nil in the year. The provision for income tax differs from the amounts that would have resulted from the combined federal and provincial rate had it been applied for the years ended:

	2000 $	1999 $
Earnings (loss) before income tax	2,819,461	(381,037)
Expected income tax at the statutory rate of 44.62%	1,258,043	(170,019)
Tax effect of non-deductible and non-taxable amounts related to:		
Non-deductible crown payments	1,007,202	364,101
Non-deductible - other	7,997	4,979
Financing costs	(184,939)	(41,872)
Federal resource allowance	(899,990)	(243,430)
Alberta Royalty Tax Credit	(139,878)	(92,163)
Capital tax	28,363	—
Unrecognized deferred tax asset	—	178,404
Resource allowance rate reduction	(17,884)	—
	1,058,914	—
Income tax expense per statement of earnings:		
Current	28,363	—
Future	1,030,551	—
	1,058,914	—
Future income tax is comprised of the following:		
Current temporary differences	1,030,551	—
Future tax liability related to flow-through shares	3,220,260	—
	4,250,811	—
The Company has the following available tax pools:		
Undepreciated capital costs	4,247,000	1,995,000
Canadian oil and gas property expense	4,969,000	5,104,000
Canadian development expense	1,504,000	2,751,000
Canadian exploration expense	781,000	416,000
Foreign exploration and development expense	1,112,000	1,228,000
Financing costs	653,000	386,000
Non-capital losses	—	2,768,000

11. FINANCIAL INSTRUMENTS

The fair value of financial instruments, which include accounts receivable, accounts payable and accrued liabilities, long-term debt, obligations under capital leases and long-term advance from related party approximates amounts at which these instruments could be exchanged in a transaction between knowledgeable and willing parties.

Obligations under capital leases carry interest at rates which are not significantly different from year end interest rates. Consequently, the fair value of these long-term liabilities approximates their carrying value.

Long-term debt and the long-term advance from related party are bank prime interest rate based loans. The Company is exposed to interest rate risk due to the fact the loans are based on the bank prime.

From time-to-time, the Company enters into natural gas contracts in order to protect its cash flow on future sales from the potential adverse impact of declining natural gas prices. The contracts reduce the fluctuation in sales revenue by locking in fixed prices with respect to future deliveries of natural gas. At December 31, 2000, the following contracts were outstanding:

i) Effective November 1, 2000 and running to March 31, 2001, the Company will sell 2,500 gigajoules per day for the price of $7.07 per gigajoule.

ii) Effective December 1, 2000 and running to March 31, 2001, the Company will sell 1,500 gigajoules per day for the price of $5.98 per gigajoule.

12. RELATED PARTY TRANSACTIONS

Pursuant to an agreement entered into in 1999 between the Company and certain officers, directors and/or shareholders, the Company incurred $171,450 in royalties payable to related parties during the year (1999 - $99,107).

13. COMMITMENT

The Company has utilized the look-back provisions of the Income Tax Act with respect to flow-through shares issued in December 2000, whereby it may renounce expenditures before they are incurred. Under these provisions, the Company must spend an additional $4,123,098 (1999 - $2,500,000) of Canadian exploration expenses before December 31, 2001. The obligation for the year ended December 31, 1999 was satisfied.

14. CONTINGENCY

A statement of claim was filed against the Company and one of its officers during the year seeking damages in the amount of $149,429. The claim alleges that the Company and one of its officers breached its fiduciary duty in respect of the Company finding a purchaser for the claimant's shares. Management believes that the claim is unfounded. Legal discoveries have been conducted and the Company is awaiting further action by the plaintiff. Therefore, the outcome is indeterminable at this time.

15. SEGMENTED INFORMATION

Year ended December 31, 2000

	Canada $	U.S. $	Total $
Revenue (net of royalties)	9,989,680	11,629	10,001,309
Depletion, depreciation and amortization	2,670,580	1,425,050	4,095,630
Operating costs	1,424,561	16,349	1,440,910
Segment operation profit (loss)	5,894,539	(1,429,770)	4,464,769
Interest and bank charges			717,527
General and administrative expenses			927,781
Income taxes			1,058,914
Net earnings			1,760,547
Identifiable assets	32,977,790	200,666	33,178,456
Capital expenditures	10,625,655	11,876	10,613,779

Year ended December 31, 1999

	Canada $	U.S. $	Total $
Revenue (net of royalties)	4,367,671	1,299	4,368,970
Depletion, depreciation and amortization	2,175,731	—	2,175,731
Operating costs	1,089,310	87,025	1,176,335
Segment operation profit (loss)	1,102,630	(85,726)	1,016,904
Interest and bank charges			750,433
Corporate expenses			647,508
Net loss			(381,037)
Identifiable assets	16,090,087	1,608,815	17,698,902
Capital expenditures	6,912,215	52,663	6,859,552

16. SUBSEQUENT EVENTS

a) Flow-Through Special Warrants

The flow-through special warrants issued on October 31, 2000 were qualified for distribution as common shares effective February 3, 2001, as the Company received its final receipt from the Securities Commission on January 29, 2001.

b) Effective February 6, 2001, the Company's common shares commenced trading on the Toronto Stock Exchange.

Directors & Officers

Board of Directors

Martin J. Cheyne
Dewinton, Alberta
President & Chief Executive Officer
Devlan Exploration Inc.

Gary J. Cochrane, L.L.B.
Calgary, Alberta
Partner, Fraser Milner Casgrain LLP

Stephen H. Freedhoff, CA, CFP
Toronto, Ontario
Independent Businessman

Bradley B. Porter
Okotoks, Alberta
Executive Vice President &
Chief Operating Officer
Devlan Exploration Inc.

Lyle J. Reinhart
Vernon, British Columbia
President, Bowhart Holdings Ltd.

Rick M. Wlodarczak, CA, CBV
Vancouver, British Columbia
President, Nova Bancorp Group

Officers and Key Personnel

Martin J. Cheyne
President & Chief Executive Officer

Bradley B. Porter
Executive Vice President &
Chief Operating Officer

William M. Matheson
Vice President Corporate Development &
Chief Financial Officer

Scott L. Patterson
Vice President Exploration

Mark B. Algar
Vice President Engineering

Gerry N. Gilewicz
Controller

Head Office
520, 520 - 5th Avenue SW
Calgary, Alberta T2P 3R7
Telephone (403) 233-7778
Fax (403) 261-3808
Website: www.devlanx.com
Email: admin@devlanx.com

Stock Listing
Toronto Stock Exchange
Trading Symbol "DXI"

Auditors
Deloitte & Touche LLP
3000, 700 - 2nd Street SW
Calgary, Alberta T2P 0S7

Legal Counsel
Blake, Cassels & Graydon LLP
3500, 855 - 2nd Street SW
Calgary, Alberta T2P 4J8

Bankers
Canadian Western Bank
606 - 4th Street SW
Calgary, Alberta T2P 1T1

Registrar and Transfer Agent
Computershare Investor Service
600, 530 - 8th Avenue SW
Calgary, Alberta T2P 3X2

Production - Devlan Exploration Inc.

Design - Two Birds, One Stone Design

DEVLAN
EXPLORATION INC.

520, 520 - 5th Avenue SW
Calgary, Alberta, Canada T2P 3R7
Tel: (403) 233-7778
Fax: (403) 261-3808
Website: www.devlanx.com
Email: admin@devlanx.com